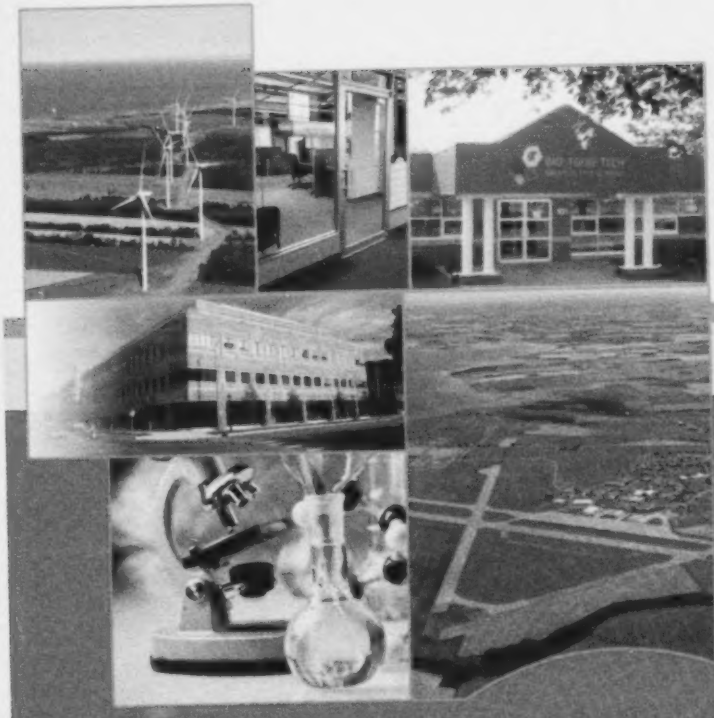
innovationpei

START. GROW. INNOVATE.



2012-13 ANNUAL REPORT

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Message from the Chief Executive Officer

Honourable Allen F. Roach
Minister of Innovation and Advanced Learning
PO Box 2000
Charlottetown, PE C1A 7N8

Dear Minister Roach,

Please accept this Innovation PEI annual report for the fiscal year ending March 31, 2013.

Taking direction from your Department and Cabinet, Innovation PEI is the lead economic development agency for the Province. Innovation PEI seeks private sector guidance, recommendations and support from its Board of Directors. The Board consists of business leaders from across the province that represent a diverse range of sectors and business interests.

Innovation PEI is committed to growing opportunities for employment and incremental wealth creation for the province. Highlights from this fiscal year include:

- $16,146,952 was approved to support 729 projects with total budgets of $87,150,615
- Organized and supported trade delegations to the United States, Europe, China, and Central America
- Attracted nine new investments that are forecast to create 271 new positions in the strategic sectors
- Delivered 110 development workshops and twenty-four general getting into business information sessions
- Supported the growth of seven local companies in the strategic sectors with 65 new positions forecasted
- As of August 1, 2012, a Business Integration Officer is available to provide navigation and business counseling services to newcomers who wish to start, purchase, or invest in business on PEI
- Supported seven Pilot & Discovery Fund projects and six Development & Commercialization Fund projects

I would like to thank our Board for their invaluable guidance, our employees for their hard work and dedication and the Department and our sister agencies for all their support and partnership as we maintain and grow Island businesses while forging new paths to attract incremental business to our Island.

Respectively submitted,

Cheryl Paynter, CA
Chief Executive Officer
Innovation PEI

Board of Directors – Innovation PEI

Brian Thompson, Chairman
Vice-President
Global Engine Services
Vector Aerospace

Dr. Brian McMillan, Director
President
Holland College

Dr. Alaa Abd-El-Aziz, Director
President
University of Prince Edward Island

Carl Brothers, Director
President
Frontier Power Systems

Linda Duncan, Director
Executive Director
Mussel Industry Council of North America

Steve Howatt, Director
VP of Agronomy & Business Development
Technology Crops International

Ron Myers, Director
Co-Owner
Thinking Big Information Technology Inc.

Dave Perry, Director
Director, Software Development
RadNet Inc.

Neil Stewart, Acting Deputy Minister, Department of Innovation and Advanced Learning

Cheryl Paynter
Secretary/Treasurer to the Board, CEO, Innovation PEI

Business Development & Integration

The Business Development & Integration Division is responsible for the coordination and delivery of information and assistance to new and existing local businesses in Prince Edward Island. The group provides counseling, financial assistance, business guidance, entrepreneur education, and management development to assist businesses with start up, expansion and diversification. Division staff attended to approximately 3500 in person meetings, 4000 plus phone calls and countless emails from Islanders regarding small business development.

Small businesses are the drivers of economic growth in Prince Edward Island, and this Division is dedicated to assisting entrepreneurs to turn business ideas into successful business operations.

As part of the Province's Red Tape Reduction initiative, staff developed the PEI portion of the Federal–Provincial initiative, BizPal. BizPaL is an online service that provides access to information on business permits and licenses that may be required to establish and run a business.

BizPaL
Business starts here

Youth entrepreneurship is supported financially and through staff involvement, including mentorship and provision of expertise. A sampling of these programs includes Junior Achievement, Young Millionaires, University Student Business Planning Contest, Enactus Canada, and Canadian Youth Business Foundation.

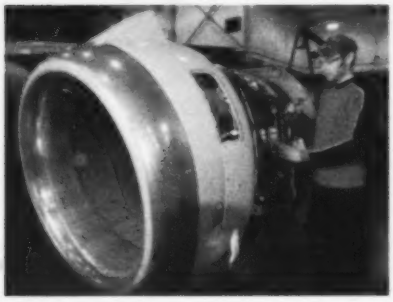
Business Development & Integration

2012-13 Highlights

- 407 projects were approved for assistance, leveraging an investment of $29.5 million into Island businesses.
- Self Employment program staff delivered 110 business development workshops and 24 getting into business information sessions. Of the attendees at these sessions, an estimated 110 started a new business.
- Division staff supports the Province's Rural Action Program as active participants of the Rural Action Centres located across Prince Edward Island. In 2012-13, 145 rural projects were approved for assistance, forecast to result in 159 new jobs outside our two cities.
- The Business Integration Officer held approximately 150 meetings with 65 unique clients. Nine new businesses owned by newcomers and assisted by the Business Integration Officer, have been registered.

Prospecting & Innovation Programs

The Prospecting & Innovation Programs Division is responsible for growing the strategic sectors of aerospace, bioscience, information technology, financial services, and renewable energy, as well as attracting out of province business investment to Prince Edward Island. The Division also manages innovation programs focused on encouraging innovation and new product development.



The prospecting function of the Division identifies, evaluates and secures business investment leads, resulting in business formations and expansions. This strengthens our economy and increases employment opportunities for Islanders. The Research and Policy unit provides Agency wide services in the areas of due diligence, competitive analysis, and program / policy reviews.

In support of these activities, staff conducted over 300 private sector client meetings, participated in and attended key industry events, and organized a business development sales mission to Toronto with six local IT companies in February 2013 with positive outcomes reported by all.

The Pilot and Discovery Fund received 27 applications. Seven were offered assistance with total funding of $175,000. The Graduate and Post-Doctoral Fellowship Program provided support for two students in each of the categories: Masters, PhD and Post Doctoral.

Prospecting & Innovation

2012-13 Highlights

- Attracted nine new investments that are projected to create an estimated 271 new positions.
- Supported the expansion of seven local companies for an estimated 65 new positions in the strategic sectors of Bio-Science and Information Technology.
- Attracted new opportunities in rural communities through support to IO Solutions Call Centre in Bloomfield, currently with 140 positions, and the development of Atlantic Advanced Power Technologies in Poole's Corner. Both projects utilized strategic pieces of infrastructure that were underutilized.
- The Development and Commercialization Fund received twenty-two applications and offered assistance to six projects at a value of $600,000.

Trade & Export Development

The mandate of the Trade & Export Development Division is to increase revenues generated from export sales and to assist Prince Edward Island companies in becoming export ready. The Division provides training and support for market entry activities and market-specific information. The Division worked in four key areas over the year: building export capacity, brand building, market research, and the coordination of export efforts.

To assist Island companies to build their export capacity, the Division introduced new programs for multiple companies to join forces in pursuing new markets.

In partnership with the PEI Culinary Alliance, the Division is working with industry to open new markets through branding. The 2012-13 efforts have culminated in a focused effort to build a premium brand for PEI beef, which will launch in August 2013.

The Division commissioned or actively participated in market research initiatives around grains and oilseeds, engineering services, seafood in China, and opportunities in the Brazil market.

An export initiatives round table was created to coordinate efforts by the Premier's office, Provincial Export Committee, Trade Team PEI, and the departments of Innovation and Advanced Learning, Agriculture and Forestry and Fisheries, Aquaculture and Rural Development.

Division staff members represent the Province on management committees for regional agreements and lead targeted trade missions to markets with strong export opportunities. Missions provide a cost-effective method for companies to evaluate and gain entry into a market.

Trade & Export Development

2012-13 Highlights

- Nineteen PEI companies are participating in efforts to build export consortia.
- In March, the trade group was integrated into the former Export Channel Development Division, forming the Trade & Export Development Division.
- Assisted three professional services and two food export groups to explore markets together.
- Participated in fourteen missions and supported 150+ companies through Trade Team PEI. This has significantly contributed to last years' $870 Million in exports from PEI.
- Trade missions included the United States (Boston, New York, Chicago, California, New Orleans, Florida), Europe (Ireland, Belgium, Spain, Sweden), China (Beijing, Shanghai, Hainan, Hong Kong), and Central America (Caribbean Region).

BIO|FOOD|TECH

BIO|FOOD|TECH analyzed a record number of food product samples on behalf of industry in 2012-13. This service provides the support needed to supply customers with safe, wholesome food. The Lab Services Division does the analysis and provides reports to processors to confirm the safety of products. BIO|FOOD|TECH also provides clients with certificates of analysis to enable export of products to the USA, Europe and Asia.

Thirty confidential contracts between BIO|FOOD|TECH and clients were completed by the Food Technology, Bioscience Technology and Lab Services Division. Consent to reveal general activities has been received from some clients; these are published online at www.biofoodtech.ca and in the divisions newsletter.

Our NRC-IRAP Contribution Agreement allows companies to do small projects at BIO|FOOD|TECH free of charge. The objective is to provide Canadian SMEs with innovation and technical support. In FY 2012-13, we worked on projects for 46 clients. There is no red tape for clients as BIO|FOOD|TECH's Project Leaders write up the project proposal for the client and obtain approval from NRC-IRAP within 24 hours. These projects have the potential to lead to development work on their behalf if proof of concept is demonstrated.

BIO|FOOD|TECH introduced Innovation Productivity Assessments (funded by NRC-IRAP) to provide processing companies with hands-on expertise and insights through site visits to their operations, which added a direct and efficient means of identifying specific technical challenges and problems in several Atlantic processing plants. Processing companies may secure funding to act upon the results of the on-site assessments through agreements between BIO|FOOD|TECH and NRC-IRAP.

BIO|FOOD|TECH

2012-13 Highlights

- Delivered *Innovation Productivity Seminars* to food and beverage processors in Moncton, Charlottetown, Halifax, and St. John's. Presentations featured BIO|FOOD|TECH, Canada's Smartest Kitchen, SRED tax credits, provincial and federal funding agents, entrepreneurs.
- In partnership with NRC-IRAP, the Canadian Food Inspection Agency and PEI Dept. of Agriculture & Forestry, delivered a *Dried Fruits and Berries Workshop*.
- Delivered the five day *Artisan Craft Distillation Workshop* to sixteen delegates from fourteen companies.
- Six *Control of E. coli O157:H7 and Related Pathogenic Strains in Meat Processing Plants Workshops* were delivered to 85 participants in the four Atlantic Provinces.

Audited Financial Statements

Innovation PEI

Consolidated Financial Statements
March 31, 2013

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ArsenaultBestCameronEllis
CHARTERED ACCOUNTANTS

A Member Firm of The AC Group of Independent Accounting Firms Limited

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Canada C1A 7L1
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June 27, 2013

Independent Auditor's Report

To the Minister of Innovation and Advanced Learning

We have audited the accompanying consolidated financial statements of **Innovation PEI**, which comprise the consolidated statement of financial position as at March 31, 2013, and the consolidated statements of operations, accumulated surplus, changes in net financial assets (debt) and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Innovation PEI** as at March 31, 2013, and the results of its operations, changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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Chartered Accountants

Innovation PEI

Consolidated Statement of Financial Position

As at March 31, 2013

	2013 $	2012 $
Assets		
Financial assets		
Cash	4,026,531	5,970,913
Accounts receivable (notes 2 and 11)	11,886,356	1,782,981
Advances to Biocommons Development Inc.	-	998,544
Loans receivable (note 3)	-	14,495,474
Due from Province of Prince Edward Island (note 4)	19,152,017	34,315,667
Investment in private companies (note 5)	-	359,999
	35,064,904	57,923,578
Liabilities		
Short-term notes payable (note 6)	-	12,618,621
Accounts payable and accrued liabilities (note 11)	29,154,721	29,587,260
Deferred revenue	-	491,854
Advances from related company	-	2,500,000
Long-term debt (note 7)	-	25,769,140
	29,154,721	70,966,875
Net financial assets (debt)	5,910,183	(13,043,297)
Non-financial assets		
Prepaid expenses and deposits	752,854	62,823
Net investment in leases (note 8)	-	828,030
Property holdings (Schedules 2 and 3)	141,341	26,058,938
Deferred capital contribution	(535,000)	-
	359,195	26,949,791
Accumulated surplus	6,269,378	13,906,494

Approved by the Board of Directors

Director

Director

Innovation PEI

Consolidated Statement of Accumulated Surplus

For the year ended March 31, 2013

	2013 $	2012 $
Accumulated operating surplus as previously stated - Beginning of year	5,404,063	2,959,727
Prior period adjustment (note 13)	8,136,392	9,699,180
Accumulated operating surplus - as restated	13,540,455	12,658,907
Transfer to Finance PEI (note 14)	(7,697,466)	-
Annual surplus	60,350	881,548
Accumulated operating surplus - End of year	5,903,339	13,540,455
Contributed surplus (note 11)	366,039	366,039
Accumulated surplus - End of year	6,269,378	13,906,494

Innovation PEI

Consolidated Statement of Operations

For the year ended March 31, 2013

	Budget (Unaudited) $	2013 $	(as restated) note 13) 2012 $
Revenue			
Grant - Province of Prince Edward Island (note 11)	22,320,200	22,320,200	26,322,800
Government contributions	-	-	1,900,132
Property operations (note 11)	-	6,304	3,571,228
Interest on loans receivable	-	-	1,308,752
Project revenue	1,230,000	1,402,589	1,007,163
Investment income	25,000	7,643	45,856
Gain on sale of property holdings	-	-	165,000
	23,575,200	23,736,736	34,320,931
Expenses (note 11) (Schedule 1)			
Operating	4,820,059	5,406,131	7,761,106
Property operations (note 13)	-	-	4,026,915
Development programs	18,429,500	18,010,058	17,692,504
Recovery of credit losses and guarantee payments (note 4)	-	-	(91,832)
Investment operations	-	-	771,780
Project costs	50,000	124,468	53,971
Grants to related companies	-	-	2,050,132
Amortization - property holdings	275,000	135,729	1,174,807
	23,574,559	23,676,386	33,439,383
Annual surplus (note 13)	641	60,350	881,548

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Innovation PEI

Consolidated Statement of Changes in Net Financial Assets (Debt)

For the year ended March 31, 2013

	2013 $	(as restated) note 13) 2012 $
Annual surplus	60,350	881,548
Acquisition of property holdings	-	(552,540)
Amortization of property holdings	135,729	1,174,807
Gain on sale of property holdings	-	(165,000)
Proceeds on disposal of property holdings	-	741,000
Transfer of property holdings	9,882,586	-
Change due to property holdings	10,018,315	1,198,267
Transfer of net investment in leases	828,030	-
Change in deferred capital contributions	535,000	(262,938)
Change in prepaid expenses	(694,166)	6,329
Decrease in net debt	10,747,529	1,823,206
Net debt - Beginning of year	(13,043,297)	(14,866,503)
Net debt of Innovation PEI subsidiaries transferred to Finance PEI (note 14)	8,205,951	-
Net financial assets (debt) - End of year	5,910,183	(13,043,297)

Innovation PEI

Consolidated Statement of Cash Flows

For the year ended March 31, 2013

	2013 $	(as restated) note 13) 2012 $
Cash provided by (used in)		
Operating activities		
Annual surplus	60,350	881,548
Items not affecting cash		
Amortization - property holdings and property and equipment	135,729	1,174,807
Gain on sale of property holdings	-	(165,000)
Decrease in due from the Province of Prince Edward Island - allowance for possible losses	-	91,832
Transfer of net assets to Finance PEI (note 14)	7,440,229	-
	7,636,308	1,983,187
Net change in non-cash working capital items		
Decrease (increase) in accounts receivable	(10,711,017)	439,699
Decrease (increase) in prepaid expenses and deposits	(694,166)	6,329
Increase in accounts payable and accrued liabilities	1,046,561	4,284,205
Decrease in deferred revenue	-	(1,868,955)
	(2,722,314)	4,844,465
Financing activities		
Decrease (increase) in due from Province of P.E.I. - current operations	4,000,000	(4,414,632)
Decrease in long-term debt (net)	-	(2,961,985)
Increase (decrease) in deferred capital contributions	535,000	(262,938)
	4,535,000	(7,639,555)
Investing activities		
Additions to and purchase of property holdings	-	(552,540)
Proceeds on disposal of property holdings	-	741,000
Decrease in loans receivable (net)	-	2,773,524
Decrease in due to Biocommons Developments Inc.	-	939,804
	-	3,901,788
Increase in cash	1,812,686	1,106,698
Cash transferred to Finance PEI	(3,757,068)	-
Cash - Beginning of year	5,970,913	4,864,215
Cash - End of year	4,026,531	5,970,913
Supplementary disclosure		
Interest and dividends received	-	1,065,400
Interest paid	-	1,662,106

Innovation PEI (the "Corporation") is a Crown corporation established under the Innovation PEI Act. Its financial results are included in the public accounts of the Province of Prince Edward Island.

1 Summary of significant accounting policies

The financial statements of the corporation have been prepared in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Standards Board of The Canadian Institute of Chartered Accountants. The following is a summary of significant accounting policies used in the preparation of these statements.

(a) General

These consolidated financial statements include the accounts of the wholly-owned subsidiary, F.T.C. Enterprises Limited.

(b) Financial instruments

The Corporation's financial instruments consists of cash, accounts receivable, due from Province of Prince Edward Island and accounts payable and accrued liabilities.

All financial assets and financial liabilities are initially recorded at fair value and subsequently measured at cost or amortized cost.

(c) Cash

Cash is comprised of cash on hand, cash in banks and savings accounts.

(d) Accounts receivable

Accounts receivable arise from tenant rents, trade sales, staff advance and Goods and Services Tax receivable. An allowance for doubtful accounts has been calculated through discussions with management, assessment of the other circumstances influencing the collectibility of amounts, and using historical loss experience. Amounts deemed uncollectible are written off and deducted from the carrying value of the receivable. Amounts subsequently recovered from accounts previously written off are credited to the allowance account in the period of recovery.

(e) Due from the Province of Prince Edward Island

i) Current operations

Operating grant – Province of Prince Edward Island is the balance due from the Province for grant revenue received that is less than the annual operating grants allocated to Innovation PEI through the appropriation process.

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ii) Allowance for possible credit losses

Prior to the transfer of the loans receivable portfolio (note 14), the annual allowance for (recovery of) possible credit losses expense was recorded as the current year's allowance for possible credit losses expense in the amount "Due from the Province of Prince Edward Island – Allowance for Possible Credit Losses" in note 4.

(f) **Programs assistance payable**

Program assistance is expensed as development program expenditures and included in accrued liabilities when approved by the Corporation and accepted by the client except for Federal-Provincial cost shared programs and provincially-funded assistance requiring future performance criteria, which are expensed when the funds are disbursed.

P.E.I. labour rebate commitments that extend beyond two years are deferred. Commitments under this program are expensed in each year of the commitment but only to the extent that performance criteria is met for that particular period.

The PEI Food Products Development Fund is a provincially-funded research assistance program administered by the company. Grants under the program are included in income and a corresponding expense and accrued liability is recorded when the grant is received. The accrued liability is reduced when contributions are made to projects. There is $205,765 (2012 - $396,591) in unexpensed assistance included in accrued liabilities at year end. The Corporation has committed funds to qualifying projects in the amount of $205,765 for the 2014 fiscal year.

(g) **Property holdings and amortization**

i) Property holdings

Property holdings are reported at the lower of cost and estimated realizable value. Property holdings are amortized using the straight-line method at the following annual rates:

Buildings	14 - 40 years
Equipment	10%, 20%, 33%, 100%
Test cell	5%

A full year's amortization is recorded in the year of acquisition.

No amortization has been taken on the equipment in transit for the year ended March 31, 2013.

(h) **Deferred capital contributions**

Innovation PEI and its subsidiary have adopted the policy that contributions received and not spent on specific property holdings at year end are recorded as deferred capital contributions. Once the specific property holdings have been purchased, the deferred capital contributions will be recorded as revenue.

(i) **Post retirement benefits**

The Corporation provides retirement benefits to eligible employees. The benefit is based on one week's salary per year of service to a maximum of 26 weeks and is expensed on an accrual basis.

(j) **Employee pension plan**

Most of the Corporation's staff are members of the Province of Prince Edward Island pension plan. Pension obligations are liabilities of the Province and not the Corporation and no liability for these costs has been accrued by the Corporation at March 31, 2013.

(k) **Foreign currency**

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated at the average monthly exchange rate.

Exchange differences are recognized into income in the period in which they arise.

(l) **Revenue recognition and deferred revenue**

Grants from the Province of Prince Edward Island are recorded in the period authorized by the Province.

Interest income is recorded on an accrual basis as earned.

Revenue from property operations are recorded when collection is reasonably assured and all other significant conditions are met.

Innovation PEI subsidiary follows the percentage-of-completion method of accounting for revenue and expenditures on project contracts. The percentage-of-completion method records the organization's revenue based on the expenditures incurred and work completed on each contract in progress as at the statement of financial position date. Unearned revenue is recorded as deferred revenue.

(m) **Management estimates**

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates. The following are areas in which management makes significant accounting estimates:

- The amount recorded for amortization of property holdings on the statement of operations is subject to management's assessment of the estimated useful life of the company's property holdings;
- The recognized amounts of liabilities depend on management's assessment of future costs and the probability these events will occur; and
- The revenue recognized from long term projects under the percentage of completion method is based on an assessment of each project based on costs incurred with regard to estimated overall costs of the project.

2 Accounts receivable

The accounts receivable have been reduced by an allowance for possible losses of $24,999 (2012 - $118,658).

3 Loans receivable

	2013 Net $	2012 Net $
Working capital		
Manufacturing and processing	-	2,389,851
Tourism	-	181,007
Small business	-	814,938
Other	-	164,433
	-	3,550,229
Long-term loans		
Shipbuilding/ shipping	-	8,485,712
Manufacturing and processing	-	1,573,349
Tourism	-	50,000
Small business	-	836,092
Other	-	92
	-	10,945,245
Total loans receivable	-	14,495,474

	2013 $	2012 $
Continuity of allowance for possible credit losses		
Allowance for possible credit losses - Beginning of year	9,685,309	9,657,142
Add: Provision (recovery) recorded during the year	-	28,167
Less: Provision transferred to Finance PEI	(9,685,309)	-
Allowance for possible credit losses - End of year	-	9,685,309

On April 1, 2012, all loans receivable were transferred to Finance PEI (note 14).

4 Due from the Province of Prince Edward Island

	2013 $	2012 $
Current operations		
Operating grant - Province of Prince Edward Island		
- current year	-	4,322,800
- prior year	6,235,800	5,913,000
Operating grant - recovery of previous year's provision	12,916,217	12,916,217
	19,152,017	23,152,017
Allowance for possible credit losses		
Balance - beginning of year	11,163,650	11,255,482
Current year's allowance for possible credit loss expense	-	(91,832)
Transfer to Finance PEI (note 14)	(11,163,650)	-
	-	11,163,650
Balance - End of year	19,152,017	34,315,667

5 Investment in private companies

	2013 $	2012 $
Investment in private companies		
Small Business and Venture Capital Equity Program investments	-	445,529
Less: Allowance for possible credit losses	-	(445,529)
	-	-
56,000 common shares of Slemon Park Corporation at cost	-	1
Investment in preferred shares of private corporations	-	1,392,810
Less: Allowance for possible credit losses	-	(1,032,812)
	-	359,999
	-	359,999

	2013 $	2012 $
Continuity of allowance for possible credit losses		
Allowance for possible credit losses - Beginning of year	1,478,341	1,598,340
Less: Transfer to Finance PEI	(1,478,341)	-
Less: Recovery during the year	-	(119,999)
Allowance for possible credit losses - End of year	-	1,478,341

On April 1, 2012, all investments in private companies were transferred to Finance PEI (note 14).

6 Short-term notes payable

	2013 $	2012 $
Demand notes payable to Island Investment Development Inc.	-	6,998,621
Demand notes payable to Province of Prince Edward Island	-	5,620,000
	-	12,618,621

On April 1, 2012, all demand notes payable were transferred to Finance PEI (note 14).

7 Long-term debt

	2013 $	2012 $
4.00% note payable to Island Investment Development Inc.	-	556,846
4.00% note payable to Island Investment Development Inc.	-	1,430,499
5.33% note payable to Province of Prince Edward Island	-	6,013,237
6.62% Bank of Nova Scotia mortgage	-	7,461,667
6.01% note payable	-	9,430,747
5.54% note payable	-	876,144
	-	25,769,140

On April 1, 2012, all notes payable were transferred to Finance PEI (note 14).

8 Net investment in leases

	2013 $	2012 $
Total of lease payments to be received to July 1, 2015	-	1,000,030
Less: Portion representing interest at 5.5%	-	(172,000)
Net present value of net investment in leases	-	828,030

On April 1, 2012, the net investment in leases were transferred to Finance PEI (note 14).

9 Contingent liabilities

The Corporation is contingently liable under loan guarantees at March 31 as follows:

	2013 $	2012 $
Loan guarantees	-	1,511,366

On April 1, 2012, all loan guarantees were transferred to Finance PEI (note 14).

10 Commitments

(a) F.T.C. Enterprises Limited has entered into a twenty-five year lease expiring November 2013 with the University of Prince Edward Island for the land upon which the Corporation constructed its facilities. The lease cost is $1 per year and is renewable for a further term of twenty-five years for the same annual consideration.

(b) Loans approved by Innovation PEI but not disbursed at March 31, 2013 total nil (2012 - $19,087,695).

(c) The Corporation has committed to disbursing as development program expenses $29,134,469 (2012 - $30,703,305) for labour rebate program assistance, $8,080,251 (2012 - $8,821,002) for enriched investment tax credits, $342,500 (2012 - $742,500) in industry chair program assistance, $261,899 (2012 - $416,891) for specialized labour rebates and $96,574 (2012 - $116,785) for share purchase tax credit over the next four years as companies meet the required requirements.

11 Related party transactions

Related companies

The related companies are provincial Crown corporations or subsidiaries of provincial crown corporations.

Balance sheet

Accounts receivable

Included in accounts receivable is $607,472 (2012 - $294,497) due from the Province of Prince Edward Island and $10,086,815 (2012 - $255,435) due from related companies.

Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities is $74,210 (2012 - $72,920) payable to the Province of Prince Edward Island, and $1,173,478 (2012 - $1,345,193) due to related companies.

Contributed surplus

F.T.C. Enterprises Limited received a cumulative total of $366,039 in funds from the Province of Prince Edward Island through Innovation PEI that have been accounted for as contributed surplus. This contribution has not been eliminated on consolidation.

Statement of operations

Revenue

Included in revenue are grants from the Province of Prince Edward Island of $22,320,200 (2012 - $26,322,800).

Property operations

Included in property operations revenue is nil (2012 - $377,028) from related parties.

Management fees

During the year, management fees of nil (2012 - $500,000) were received from Island Investment Development Inc. and recorded as a reduction in operating expenses.

Interest expense

Included in expenses is nil (2012 - $435,283) in interest paid to the Province of Prince Edward Island.

Included in expenses is nil (2012 - $160,606) in interest paid to a provincial Crown corporation.

Grants to related companies

During the year, grants of nil (2012 - $910,132) and nil (2012 - $1,140,000) were expensed to Biocommons Development Inc. and Prince Edward Island Century 2000 Fund Inc., respectively.

Biocommons Developments Inc. is a non-profit company with a similar Board of Directors as P.E.I. Biocommons Inc.'s Board of Directors.

Prince Edward Island Century 2000 Fund Inc. is a subsidiary of a Crown corporation.

Other

The Corporation rents land for the annual amount of $2,120 plus applicable taxes from Slemon Park Corporation under a fifty-year lease agreement, effective for the term September 28, 2001 to September 28, 2051.

100417 P.E.I. Inc., a wholly-owned subsidiary of Finance PEI, a Crown corporation, owns 56% of the common shares of Slemon Park Corporation.

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12 Financial risk management objectives and policies

Innovation PEI's principal business activities result in a statement of financial position that consists primarily of financial instruments. The principal financial risks that arise from transacting financial instruments include credit, liquidity, market and operational risk. Authority for all risk-taking activities rests with the Board of Directors (Board), which approves risk management policies, delegates' limits and regularly reviews management's risk assessments and compliance with approved policies. Qualified professionals throughout Innovation PEI manage these risks through comprehensive and integrated control processes and models, including regular review and assessment of risk measurement and reporting processes.

(a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty of a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the company's accounts receivable and due from the Province of Prince Edward Island.

The Corporation's maximum exposure to credit risk at the statement of financial position date in relation to each class of recognized financial assets is the carrying amount of those assets indicated in the statement of financial position. The maximum credit exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

The Corporations's maximum exposure to credit risk at the reporting date was:

	$
Accounts receivable	11,886,356
Due from Province of Prince Edward Island	19,152,017
	31,038,373

(b) Liquidity risk

Liquidity risk is the risk that the Corporation may not be able to meet its financial obligations as they come due. Specifically, the Corporation needs to ensure it has adequate resources to repay all accounts payable and accrued liabilities as they come due. The Corporation's approach to manage liquidity risk is to closely monitor its cash flows and forecast the expected receipts and obligations.

The Corporation's financial liabilities of $29,154,721 are expected to be repaid within one year.

(c) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Corporation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management.

(d) Capital management

The primary objective of Innovation PEI's capital management is to ensure that it maintains a healthy financial position in order to support its business. Innovation PEI manages its capital structure and makes changes to it in light of changes in economic conditions.

13 Prior period adjustment

(a) Effective April 1, 2012, the Province of Prince Edward Island adopted CICA Section PS 3410 Government Transfers and, consequently, Innovation PEI has adopted this standard as well. As a result of adopting this standard, government transfers received to fund capital purchases are recorded as revenues as opposed to being recorded as deferred credits.

This change in accounting policy has been accounted for retrospectively, and the comparative statements for 2012 have been restated. The effect of the change in 2012 is as follows:

- Opening accumulated surplus for 2012 has been increased by $9,699,181, which is the balance of $9,681,391 in deferred credits at March 31, 2011 and the $17,790 noted in (b) below.
- The property operations expense for 2012 was increased by $942,392 which was the amortization of deferred credits and the government contributions revenue has decreased by $602,606 from the amounts originally recorded in the 2012 financial statements. Consequently, the annual surplus for 2012 has decreased by $1,544,998.
- Opening accumulated surplus for 2013 has been increased by $8,136,392 as a result of the addition of $9,681,391 in 2012's opening accumulated surplus and the reduction of $1,544,999 in 2012's Statement of Operations.

(b) Prior to 2011, Atlantic Technology Centre Inc. had collected the first month's rental income from one of its tenants and it was not recognized as rental revenue when the tenant vacated. As a result, the April 1, 2011 opening accumulated surplus was increased by $17,790 and the 2012 comparative figure for revenue was decreased by $17,790.

14 Transfer to Finance PEI

Finance PEI was established as a new Crown corporation effective April 1, 2012 with a mandate to administer business financing programs and manage real estate and personal property for the provincial government.

Effective April 1, 2012, Innovation PEI transferred the assets and liabilities of the financing and property divisions and three wholly-owned subsidiaries carrying on financing and property operations to Finance PEI. The three subsidiaries transferred to Finance PEI are Atlantic Technology Centre Inc., P.E.I. Biocommons Inc. and 100417 P.E.I. Inc.

The assets and liabilities transferred were transferred at their financial statement carrying values as follows:

	Innovation PEI subsidiaries $	Innovation PEI $	Total $
Financial assets			
Cash	3,757,068	-	3,757,068
Accounts receivable	14,451	360,741	375,192
Accrued interest receivable	-	429,698	429,698
Loans receivable	-	14,495,474	14,495,474
Advances to related companies	998,644	1,179,983	2,178,627
Due from the Province of Prince Edward Island	-	11,163,650	11,163,650
Investment in subsidiaries and private companies	1	360,298	360,299
	4,770,164	27,989,844	32,760,008
Liabilities			
Accounts payable and accrued liabilities	1,144,961	334,137	1,479,098
Advances from related companies	3,877,633	-	3,877,633
Deferred revenue	491,854	-	491,854
Short-term notes payable	-	12,618,621	12,618,621
Long-term debt	7,461,667	18,307,473	25,769,140
	12,976,115	31,260,231	44,236,346
Net financial assets (debt)	(8,205,951)	(3,270,387)	(11,476,338)
Non-financial assets			
Prepaid expenses	4,136	-	4,136
Net investment in lease	-	828,030	828,030
Property holdings	15,899,281	9,882,586	25,781,867
	15,903,417	10,710,616	26,614,033
Net assets	7,697,466	7,440,229	15,137,695

The $7,697,466 of net assets transferred from Innovation PEI subsidiaries were recorded by Innovation PEI as a reduction to accumulated surplus. The $7,440,229 of net assets transferred from Innovation PEI to Finance PEI were recorded by Innovation PEI as an advance from related company, which is grouped in accounts receivable.

In addition, contingent liabilities from note 9 were transferred to Finance PEI.

Innovation PEI

Consolidated Schedule of Expenses by Type

For the year ended March 31, 2013 **Schedule 1**

	Salaries Benefits $	Operating Goods & Services $	Programs & Grants $	Property Operations $	Lending Operations $	Interest Expense $	Amortization $	2013 Total $
Expenses								
Operating	3,755,862	1,650,269	-	-	-	-	-	5,406,131
Development programs	-	-	18,010,058	-	-	-	-	18,010,058
Project costs	-	124,468	-	-	-	-	-	124,468
Amortization of property holdings	-	-	-	-	-	-	135,729	135,729
	3,755,862	1,774,737	18,010,058	-	-	-	135,729	23,676,386

	Salaries Benefits $	Operating Goods & Services $	Programs & Grants $	Property Operations $	Lending Operations $	Interest Expense $	Amortization $	2012 Total $
Expenses								
Operating	5,054,985	1,609,678	990,000	-	-	106,443	-	7,761,106
Property operations	861,370	1,154,740	-	1,211,845	-	798,960	-	4,026,915
Development programs	-	-	17,692,504	-	-	-	-	17,692,504
Allowance for (recovery of) credit losses and guarantee payments	-	-	-	-	(91,832)	-	-	(91,832)
Investment operations	-	(44,637)	-	-	-	816,417	-	771,780
Project costs	-	53,971	-	-	-	-	-	53,971
Grants to related companies	-	-	2,050,132	-	-	-	-	2,050,132
Amortization of property holdings	-	-	-	-	-	-	1,174,807	1,174,807
Amortization of deferred credits	-	-	-	-	-	-	-	-
	5,916,355	2,773,752	20,732,636	1,211,845	(91,832)	1,721,820	1,174,807	33,439,383

Innovation PEI

Consolidated Schedule of Property Holdings

As at and for the year ended March 31, 2013 **Schedule 2**

	Cost				Accumulated amortization				2013
	Beginning $	Additions $	Disposals/ Transfers $	Ending $	Beginning $	Amortization $	Disposals $	Ending $	Net book value $
General									
Land	981,500	-	(981,500)	-	-	-	-	-	-
Land improvements	44,765	-	(44,765)	-	44,765	-	44,765	-	-
Equipment	6,099,940	-	-	6,099,940	5,935,623	62,914	-	5,998,537	101,403
Buildings	6,118,615	-	(1,666,770)	4,451,845	5,056,985	72,815	717,893	4,411,907	39,938
	13,244,820	-	(2,693,035)	10,551,785	11,037,373	135,729	762,658	10,410,444	141,341
Property holdings held for resale									
Land	1,334,302	-	(1,334,302)	-	-	-	-	-	-
Buildings	1,500,000	-	(1,500,000)	-	425,580	-	425,580	-	-
	2,834,302	-	(2,834,302)	-	425,580	-	425,580	-	-
Industrial Sites									
Land	4,122,904	-	(4,122,904)	-	-	-	-	-	-
Land improvements	2,717,805	-	(2,717,805)	-	2,709,390	-	2,709,390	-	-
Leasehold improvements	166,702	-	(166,702)	-	5,835	-	5,835	-	-
Buildings	19,821,083	-	(19,821,083)	-	5,323,473	-	5,323,473	-	-
Equipment	6,999,226	-	(6,999,226)	-	6,964,695	-	6,964,695	-	-
	33,827,720	-	(33,827,720)	-	15,003,393	-	15,003,393	-	-
Test cell	4,937,000	-	(4,937,000)	-	2,318,557	-	2,318,557	-	-
	54,843,842	-	(44,292,057)	10,551,785	28,784,903	135,729	18,510,188	10,410,444	141,341

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Innovation PEI

Consolidated Schedule of Property Holdings

As at and for the year ended March 31, 2011

Schedule 2

	Cost				Accumulated amortization				2012
	Beginning $	Additions $	Disposals/ Transfers $	Ending $	Beginning $	Amortization $	Disposals $	Ending $	Net book value $
General									
Land	981,500	-	-	981,500	-	-	-	-	981,500
Land improvements	44,765	-	-	44,765	44,766	(1)	-	44,765	-
Equipment	6,111,730	(11,790)	-	6,099,940	5,872,412	63,212	-	5,935,624	164,316
Buildings	6,118,615	-	-	6,118,615	4,894,266	162,719	-	5,056,985	1,061,630
	13,256,610	(11,790)	-	13,244,820	10,811,444	225,930	-	11,037,374	2,207,446
Property holdings held for resale									
Land	1,334,302	-	-	1,334,302	-	-	-	-	1,334,302
Buildings	1,500,000	-	-	1,500,000	320,580	105,000	-	425,580	1,074,420
	2,834,302	-	-	2,834,302	320,580	105,000	-	425,580	2,408,722
Industrial Sites									
Land	4,690,789	8,113	(575,998)	4,122,904	-	-	-	-	4,122,904
Land improvements	2,717,805	-	-	2,717,805	2,688,797	20,593	-	2,709,390	8,415
Leasehold improvements	-	166,702	-	166,702	-	5,835	-	5,835	160,867
Buildings	19,484,713	336,370	-	19,821,083	4,759,699	563,774	-	5,323,473	14,497,610
Equipment	6,957,871	41,355	-	6,999,226	6,957,871	6,824	-	6,964,695	34,531
	33,851,178	552,540	(575,998)	33,827,720	14,406,367	597,026	-	15,003,393	18,824,327
Test cell	4,937,000	-	-	4,937,000	2,071,707	246,850	-	2,318,557	2,618,443
	54,879,090	540,750	(575,998)	54,843,842	27,610,098	1,174,806	-	28,784,904	26,058,938

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